



NATIONAL CONTAINERS LIMITED

ANNUAL REPORT
1964



HIGHLIGHTS

| | 1964 | 1963 | 1962 |
|--------------------------|-----------|-----------|-----------|
| | \$ | \$ | \$ |
| NET SALES..... | 6,496,745 | 5,288,968 | 4,117,663 |
| INCOME BEFORE TAXES..... | 508,509 | 414,570 | 341,825 |
| INCOME TAXES..... | 118,764 | 83,937 | 81,372 |
| NET INCOME..... | 389,745 | 330,633 | 260,453 |
| EARNINGS PER SHARE..... | 58¢ | 49¢ | 39¢ |
| DIVIDENDS PER SHARE..... | 20¢ | 20¢ | — |

NATIONAL CONTAINERS LIMITED

AND SUBSIDIARY COMPANIES

DIRECTORS—

JACK BERNARD GOODIS
HYMAN KATZ
WILLIAM KATZ
ERIC DUFF SCOTT
NATHAN LOUIS SANDLER
FRANK BAZSO JR.
DAVID LITNER, Q.C.

OFFICERS—

JACK BERNARD GOODIS —*President*
WILLIAM KATZ —*Vice-President*
HYMAN KATZ —*Secretary-Treasurer*

AUDITORS—

S. HOFFMAN & Co.

SOLICITOR—

DAVID LITNER, Q.C.

REGISTRAR & TRANSFER AGENTS—

Canada Permanent Trust Company,
Montreal and Toronto.

BOND TRUSTEE—

Montreal Trust Company,
Montreal and Toronto.

BANKERS—

Toronto-Dominion Bank

COMMON STOCK LISTINGS—

Montreal Stock Exchange
Toronto Stock Exchange

EXECUTIVE OFFICE—

25 Du Moulin Street,
Ville St. Pierre, Montreal, Que.

SUBSIDIARIES

MACDONALD DRUMS MFG. CORPORATION
Ville St. Pierre, Montreal, Que.

NATIONAL STEEL DRUM LTD.
Petrolia, Ont.

ROSEMOUNT BARREL & DRUM INC.
Montreal, Que.

DOMINION FIBRE DRUM CORP.
Montreal, Que.

DOMINION PLASTIC CONTAINERS LTD.
Ville St. Pierre, Montreal, Que.

NATIONAL CONTAINERS LIMITED

PRESIDENT'S REPORT to the Shareholders

On behalf of the Board of Directors, I am pleased to report another year of record growth and performance, with new highs again established in earnings and sales.

For the year ended December 31st, 1964 earnings were \$389,745, equivalent to 58¢ per common share, up 18% from 1963 when the Company earned \$330,633 or 49¢ per common share. Consolidated sales increased 23% from \$5,288,968 in 1963 to \$6,496,745 in 1964.

The Company's policy of modernization and efficiency in its operations have continued to show the desired results inasmuch as both sales and profits have significantly increased in 1964. These results have come about in spite of prices which were generally depressed in the industry.

The Ontario market is being more fully exploited through the opening of the Company's warehouse in Toronto. This warehouse is distributing pails, drums, and fibre containers. Results of this operation have been most gratifying.

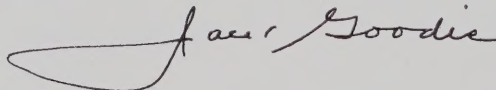
To finance its continued growth the Company, during the year, raised \$1,000,000 through the issuance of 6½% First Mortgage Sinking Fund Bonds Series B due on June 1, 1984.

A portion of this new financing has been used to create a new subsidiary, Dominion Plastic Containers Ltd. The products produced by this plant which should be in operation within the next few months, will develop new markets for the Company.

The Company's program of planned growth through a combination of development of new products, acquisitions, and increasing its share of the markets is continuing during the current year. Management anticipates that the large capital expenditures made in 1964 will have a significant impact on earnings during the next twelve months.

During the past year the dedication of the staff has been greatly appreciated.

On behalf of the Board of Directors,

A handwritten signature in dark ink, appearing to read "J. A. Goodie". The signature is fluid and cursive, with a large loop at the end.

March 24th, 1965.

President

NATIONAL CONTAINERS LIMITED

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME, YEAR ENDED DECEMBER 31, 1964

(with comparative figures for the year ended December 31, 1963)

| | 1964 | 1963 |
|--|-------------------|-------------------|
| Profit from operations before the undermentioned items | \$ 795,413 | \$ 656,714 |
| Add: Miscellaneous income | — | 4,436 |
| | <u>795,413</u> | <u>661,150</u> |
| <i>Deduct:</i> | | |
| Provision for depreciation | 146,500 | 143,593 |
| Interest on debentures and amortization of discount | 107,575 | 73,255 |
| Interest on mortgage and other loans | 32,829 | 29,732 |
| | <u>286,904</u> | <u>246,580</u> |
| Income before provision for income taxes | 508,509 | 414,570 |
| Provision for income taxes (note 4) | 118,764 | 83,937 |
| Net Income for the year | <u>\$ 389,745</u> | <u>\$ 330,633</u> |

CONSOLIDATED STATEMENT OF RETAINED EARNINGS YEAR ENDED DECEMBER 31, 1964

| | | |
|---|---------|---------------------|
| Balance at beginning of year | | \$ 844,755 |
| Add: Net income for the year | 389,745 | |
| Gain on sale of marketable securities | 54 | 389,799 |
| | | <u>1,234,554</u> |
| <i>Deduct:</i> | | |
| Dividends | 133,481 | |
| Write off—Organization Expense | 301 | |
| Tax Assessments re prior years income | 4,815 | 138,597 |
| | | <u>\$ 1,095,957</u> |



NATIONAL COMMERCIAL AND SUBSIDIARY

CONSOLIDATED BALANCE SHEET (with comparative figures)

ASSETS

| | 1964 | 1963 |
|--|------------------|------------------|
| CURRENT ASSETS | | |
| Cash on hand and in bank..... | — | \$ 2,861 |
| Accounts Receivable..... | \$ 868,217 | 878,221 |
| Inventories—valued at the lower of cost or market..... | 1,005,329 | 822,254 |
| Prepaid expenses and deposits (Note 1)..... | 67,450 | 11,397 |
| | <u>1,940,996</u> | <u>1,714,733</u> |
| INVESTMENTS | | |
| Sinking Funds Assets (Note 2)..... | — | 81,737 |
| Stocks—valued at market value..... | — | 2,580 |
| Mortgage receivable..... | 15,000 | 17,000 |
| | <u>15,000</u> | <u>101,317</u> |
| FIXED ASSETS (Note 3) | | |
| Land, Buildings, Machinery, Equipment and Rolling Stock.... | 4,815,475 | 4,393,741 |
| Less: Accumulated Depreciation..... | 1,349,503 | 1,235,262 |
| | <u>3,465,972</u> | <u>3,158,479</u> |
| DEFERRED CHARGES | | |
| Unamortized discount on bonds and Refinancing expenses.... | 170,841 | 117,320 |
| Unamortized Development Expenses..... | 15,354 | — |
| Unamortized Cost of Franchise..... | 43,305 | — |
| | <u>229,500</u> | <u>117,320</u> |
| EXCESS COST OF INVESTMENT OVER BOOK VALUE (Note 6)..... | <u>99,978</u> | <u>—</u> |

Approved on behalf of the Board:

(Sgd.) JACK BERNARD GOODIS,

Director

\$ 5,751,446

(Sgd.) HYMAN KATZ,

Director

\$ 5,091,849

AINERS LIMITED

Y COMPANIES



AS AT DECEMBER 31, 1964

(at December 31, 1963)

LIABILITIES

| | <u>1964</u> | <u>1963</u> |
|---|------------------|------------------|
| CURRENT LIABILITIES | | |
| Bank Loan—secured | \$ 572,699 | \$ 700,000 |
| Accounts Payable and Accrued Liabilities | 451,772 | 382,549 |
| Income Taxes payable (Note 4) | 35,267 | 52,775 |
| Long Term Debt due within one year (Note 2) | 22,000 | — |
| | <u>1,081,738</u> | <u>1,135,324</u> |
| LONG TERM DEBT (Note 2) | | |
| 6½% First Mortgage Sinking Fund Bonds | 1,810,100 | 1,000,000 |
| Loans Payable | — | 287,000 |
| | <u>1,810,100</u> | <u>1,287,000</u> |
| MINORITY INTEREST | <u>—</u> | <u>430</u> |

SHAREHOLDERS' EQUITY

| | | |
|---|---------------------|---------------------|
| CAPITAL STOCK (Note 5) | | |
| <i>Authorized</i> | | |
| 1,000,000 shares of the par value of \$1.00 each | | |
| <i>Issued and Fully Paid</i> | | |
| 666,468 shares | 667,460 | 666,468 |
| CONTRIBUTED SURPLUS (Note 5) | 712,056 | 708,548 |
| EXCESS OF APPRAISED VALUE OF FIXED ASSETS | | |
| over depreciated cost (Note 3) | 384,135 | 384,135 |
| RETAINED EARNINGS | 1,095,957 | 844,755 |
| EXCESS BOOK VALUE OVER COST OF INVESTMENTS | — | 65,189 |
| | <u>2,859,608</u> | <u>2,669,095</u> |
| | <u>\$ 5,751,446</u> | <u>\$ 5,091,849</u> |

NATIONAL CONTAINERS LIMITED

AND SUBSIDIARY COMPANIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1964

- 1) Included in deposits is an amount of \$40,000 representing the balance of funds from the 6½% First Mortgage Sinking Fund Bonds Series "B" which are being held in Trust by the Montreal Trust Company and to be surrendered to National Containers Limited on an "after acquired assets basis".
- 2) Long Term Debt

| | |
|--|--------------------|
| Series "A" | \$ 917,000 |
| Series "B" | 978,000 |
| | <u>\$1,895,000</u> |
| Less: Company's own bonds Series A purchased for retirement in anticipation of Sinking Fund requirements | 84,900 |
| | <u>\$1,810,100</u> |

The 6½% First Mortgage Sinking Fund Bonds Series A are due on March 15, 1977. Under the terms of the Trust Deed the company must deposit with the trustee an amount sufficient to retire \$70,000, principal amount of Series A bonds on March 15 in each of the years 1964 to 1976 inclusive. The Series A Bonds are redeemable otherwise than out of sinking fund moneys at the option of the company at the principal amount plus a premium of 6% of the principal amount if redeemed on or before March 15, 1965 and thereafter at a premium decreasing by ½ of 1% per annum up to and including March 15, 1976. Notwithstanding the foregoing, the Series A Bonds may not be redeemed prior to March 15, 1973 directly or indirectly as part of any refunding operation involving the incurrence of indebtedness which has a net interest cost to the company of 6½% per annum or less. During the year the company has purchased on the open market and retained in its sinking fund its own bonds having a principal value of \$84,900.

The principal amount of Series A bonds outstanding as at December 31, 1964 is \$917,000 after the retirement during the year of bonds having a principal value of \$83,000. Due to the fact that \$13,000 principal amount of Series A Bonds was retired over the annual sinking fund requirement, a balance of \$57,000 is needed to meet the sinking fund requirement in 1965. The company has purchased \$84,900 of Series A Bonds for this purpose and after the retirement of \$57,000 of these bonds, a balance of \$27,900 will remain to be applied for future sinking fund requirements.

The 6½% First Mortgage Sinking Fund Bonds Series B are due on June 1, 1984. Under the terms of the trust deed the company must deposit with the trustee an amount sufficient to retire not less than \$660,000 principal amount of the bonds prior to maturity. The following payments will be made to the trustee:

| | |
|-----------------------------------|--------------------|
| June 1, 1965-1970 inclusive | \$22,000 per annum |
| June 1, 1971-1977 inclusive | \$30,000 per annum |
| June 1, 1978-1983 inclusive | \$53,000 per annum |

The series B bonds are redeemable otherwise than out of sinking fund moneys at the option of the company on not less than 30 days notice at the principal amount thereof, plus a premium of 6½% of such principal amount if redeemed on or before June 1, 1965, such premium thereafter decreasing .35 of 1% of such principal amount for each year commenced or elapsed from June 1, 1965 to the date specified for redemption up to and including June 1, 1983. Notwithstanding the foregoing, the series B Bonds may not be redeemed prior to June 1, 1974 directly or indirectly as part of, or in anticipation of any refunding operation involving the incurring of indebtedness which has a net interest cost to the company of 6½% per annum or less.

- 3) (a) Fixed assets for National Containers Limited and subsidiary companies excepting Dominion Fibre Drum Corp. and Dominion Plastic Containers Ltd. are valued in accordance with an appraisal made by Canadian Appraisal Company Limited as at December 31, 1963. The appraisal of Dominion Fibre Drum Corp. was made by the same company as at January 31, 1964. The then present value was \$3,270,845 based on cost of replacement less observed depreciation plus subsequent additions at cost less disposals. Certain assets not included in the appraisal have been valued at \$5,944 being cost less accumulated depreciation. The fixed assets of Dominion Plastic Containers Ltd. amounting to \$58,052 are included at cost—no depreciation having been taken as these assets had not been installed as at December 31, 1964. Depreciation has not been taken on an amount of \$33,690 representing a building under construction for Rosemount Barrel & Drum Inc. The total excess of appraisal value of fixed assets over net depreciated cost amounts to \$989,211.
- (b) Excess of appraised value of fixed assets over depreciated cost, amounting to \$384,135 represents the appraisal increment of subsidiaries subsequent to acquisition and of National Containers only. The appraisal increment of the subsidiary companies amounting to \$605,076 prior to acquisition have been eliminated on consolidation.
- 4) During the 1964 fiscal year \$265,065 excess capital cost allowance was claimed for tax purposes with a resulting tax reduction of \$135,601. At December 31, 1964, the accumulated tax reduction arising from claiming additional capital cost allowance amounted to \$367,135.
- 5) (a) Authorized capital stock is 1,000,000 shares of the par value of \$1 each \$1,000,000
- (b) The company has set aside 40,000 shares for an employee stock option plan. As at December 31, 1964, options to purchase 37,275 shares in the capital stock of the company have been granted.
- (c) The company originally set aside 80,000 shares for warrants issued entitling the bearers thereof to purchase such shares in the capital stock of the company. As at December 31, 1964, 1,960 warrants have been exercised.
- (d) Changes during the year in the issued capital stock and contributed surplus are as follows:

| | Capital Stock | | Contributed Surplus |
|---|----------------|------------------|---------------------|
| | No. of shares | Amount | |
| Balance as at January 1, 1964 | 666,468 | \$666,468 | \$708,548 |
| Exercise of warrants | 992 | 992 | 3,508 |
| | <u>667,460</u> | <u>\$667,460</u> | <u>\$712,056</u> |

During the year ended December 31, 1964 as a result of the exercise of warrants 992 shares were issued for \$4,500 cash of which \$3,508 was credited to Contributed Surplus.

- 6) Excess cost of investments over book value represents, (1) the excess, \$13,675 of the purchase price of the shares of National Steel Drum Ltd. over the book value, (2) the excess, \$165,167 of the purchase price of the shares of Dominion Fibre Drum Corp. over the book value, (3) less the excess, \$1,057 of the book value of MacDonald Drums Mfg. Corporation over the purchase price paid by the company for shares of that company, (4) less the net excess, \$77,807 of the book value of Rosemount Barrel & Drum Inc. over the purchase price paid by the company for shares of that company.

AUDITORS' REPORT

MONTREAL, March 12, 1965.

*To the Shareholders of:
National Containers Limited,
Montreal 28, Que.*

We have examined the consolidated balance sheet of National Containers Limited and its wholly-owned subsidiary companies as at December 31, 1964 and the consolidated statements of income and retained earnings for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

We have accepted the financial statements of National Steel Drum Limited as certified by Messrs. Perlmutter, Orenstein, Giddens, Newman & Kofman, Chartered Accountants.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the companies, the accompanying consolidated balance sheet and consolidated statements of income and retained earnings, when read in conjunction with the notes appended thereto, are properly drawn up so as to exhibit a true and correct view of the consolidated state of affairs of the companies as at December 31, 1964 and the consolidated results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

(Sgd.) S. HOFFMAN & CO.

Chartered Accountants



